

Message Text

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ACTION EB-06

INFO OCT-01 ARA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-05

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R 112325Z NOV 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8557

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMEMBASSY TEGUCIGALPA

AMCONSUL GUAYAQUIL

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1. SUMMARY. BANANA TAX DISCUSSIONS TAKING PLACE HERE BETWEEN THE COSTA RICAN GOVERNMENT ANAGPRODUCER COMPANIES ARE SO FAR INCONCLUSIVE. THE GOCR IS BACKING AWAY FROM ITS EARLIER INSISTENCE ON AN IMMEDIATE INCREASE TO 50 CENTS, BUT IS HAVING DIFFICULTY GAINING ACCEPTANCE OF ITS CURRENT PROPOSAL BECAUSE THE MAJOR NEGOTIATING COMPANY, UNITED BRANDS, DOES NOT WISH TO TAKE THE RESPONSIBILITY FOR ACCEPTING A DEAL THAT THE OTHER COMPANIES HAVE NOT YET AGREED TO. END SUMMARY.

2. NEGOTIATIONS THAT HAVE TAKEN PLACE THROUGHOUT THE PAST WEEK BETWEEN THE COSTA RICAN GOVERNMENT AND TWO OF THE MAJOR BANANA PRODUCING COMPANIES -- UNITED BRANDS AND DEL MONTE -- HAVE NOT YET LED TO A SOLUTION OF THE BANANA EXPORT TAX PROBLEM. THE PRINCIPAL NEGOTIATOR FOR UNITED BRANDS, ENRIQUE LOPEZ-BALBOA OF THE BOSTON OFFICE, IS NOW IN PANAMA FOR TALKS WITH ECONOMICS MINISTER MANFREDO, BUT IS EXPECTED TO RETURN TO COSTA RICA LATER ON IN THE WEEK TO CONTINUE TALKS HERE.

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3. PERHAPS THE MOST ENCOURAGING SIGNAL TO COME OUT OF LAST WEEK'S MEETING IS THAT THE GOCR APPEARS NOW TO HAVE BACKED A DAY FROM ITS EARLIER DETERMINATION TO SEEK AN IMMEDIATE INCREASE OF THE BANANA TAX TO THE 50 CENT LEVEL. ACCORDING TO A UNITED BRANDS PARTICIPANT IN THE NEGOTIATIONS, THE GOVERNMENT IS SHOWING FLEXIBILITY ON TIMING OF THE TAX INCREASE AND IS NOW WILLING TO ACCEPT A THREE-STAGE INCREASE WHICH WOULD ADD PERHAPS 7 CENTS NOW TO THE 25 CENT INTERIM TAX AND WOULD ADD 11 CENTS NEXT YEAR AND ANOTHER 7 CENTS THE FOLLOWING YEAR; AS EXPECTED, THE GOVERNMENT HAS ASKED THAT THE PRICE PAID TO INDEPENDENT PRODUCERS RISE TO \$2.20 AND THAT THE COMPANIES EITHER GIVE UP OR MAKE PRODUCTIVE USE OF LAND NOT NOW BEING CULTIVATED.

4. THE POSITION THAT UNITED BRANDS HAS TAKEN WITH THE GOVERNMENT IS THAT IT DOES NOT WISH TO SPEAK FOR THE ENTIRE INDUSTRY, EVEN THOUGH ITS CONTRACT WITH THE GOVERNMENT IS THE MASTER CONTRACT ON WHICH ALL BANANA TAX ARRANGEMENTS ARE BASED IN COSTA RICA. THE UNITED BRANDS REPRESENTATIVE STATES THAT HIS COMPANY HAS ASKED THAT THE GOVERNMENT CONVENE A MEETING OF ALL BANANA PRODUCING COMPANIES IN ORDER TO SEEK THEIR ASSENT TO THE CHANGES WHICH THE GOVERNMENT WISHES TO MAKE.

5. THE EMBASSY HAS HEARD HERE FROM ANOTHER SOURCE THAT UNITED BRANDS IS MAKING IT A "CONDITION OF REPLANTING ITS PLANTATIONS IN HONDURAS THAT THE GOVERNMENT EXONERATED IT FROM THE BANANA TAX THAT HAD BEEN AGREED UPON PRIOR TO HURRICANE FIFI." IF THIS REPORT IS TRUE, THIS WOULD SEEM TO BE A VERY HARD-LINE POSITION FOR THE COMPANY TO BE TAKING GIVEN ITS EARLIER ACCEPTANCE OF THE HT DURAN TAX PLAN AND INDEED ITS ATTEMPT TO ENCOURAGE OTHER CENTRAL AMERICAN GOVERNMENTS TO IMPLEMENT A SIMILAR SCHEME. SUCH A CHANGE OF POSITION, IF TRUE, MIGHT BE A REACTION TO THE RECENT DECLINE IN BANANA PRICES IN THE U.S. OR IT MIGHT REFLECT CHANGING OPINIONS WITHIN THE COMPANY.

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